SR-14 - FABRICATING, PRODUCING AND PROCESSING

"Fabricating, producing, and processing" includes any operation which results in the creation or production of an article of tangible personal property, or which is a step in a process or series of operations resulting in the creation or production of such an article; the terms exclude operations not so related for the creation or production of such an article.

An operation which changes the form or state of tangible personal property is one of fabrication. Persons regularly engaged in the fabrication or production of articles for sale at retail shall collect and remit the tax on the sales price. If the fabricator converts such property to his own use, he shall remit the tax based on his acquisition cost.

The tax applies to the total charges for the fabrication or production of an article of tangible personal property made to order. For example, if a manufacturer orders a machine part from a machine shop, the tax shall be paid on the total charge for the part, including labor, although charges for labor may be segregated from the cost of the materials. Similarly, the total charge for making drapes is subject to tax.

Tax does not apply when an exemption is claimed, such as when a buyer intends to resell the fabricated item without otherwise using the item, or when a fabricator produces an item that would be exempt in the hands of the buyer, such as when a buyer purchases manufacturing machinery or machine tools that qualify under §39-26-709(1), §39-26-709(2), C.R.S. (use tax exemption) or §39-30-106 C.R.S. (tax exemption in an enterprise zone). The fabricator should obtain the necessary information to establish that the sale is exempt, such as obtaining the buyer's sales tax account number or exemption certificate number or a file Department form DR-1191 for machinery or machine tools.